

**HIGHLAND CONSERVATION DISTRICT
STATE OF UTAH
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
WITH COMPILATION REPORT
YEAR ENDED DECEMBER 31, 2006**

HIGHLAND CONSERVATION DISTRICT

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ACCOUNTANT'S COMPILATION REPORT

May 15, 2007

Board of Directors
Highland Conservation District
Highland, Utah

I have compiled the accompanying financial statements of the business-type activities of Highland Conservation District, Utah (District) as of and for the year ended December 31, 2006, which comprise the District's basic financial statements as listed in the table of contents, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. I have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. I have compiled the supplementary information from information that is the representation of management, without audit or review. Accordingly, I do not express an opinion or any other form of assurance on the supplementary information.



Greg Ogden,
Certified Public Accountant



MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

Our Discussion and Analysis of Highland Conservation District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2006.

Financial Highlights

- The District's net assets increased \$22,577 over the prior year as a result of this year's operations. This is an increase of 2.27%.
- The District's business-type activity, operating revenues and expenses were \$140,951 and \$133,537 respectively.
- The District's business-type activity total revenues and expenses were \$146,764 and \$133,537 respectively.
- Cash flow from operating activities was \$38,856. The net change in cash and cash equivalents was an increase of \$35,511.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and The Statement of Activities are government-wide financial statements. The Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows provide information about the activity of the District and present a longer-term view of the District's finances. The notes to the financial statements include additional explanatory information regarding the District's accounting practices and financial statements.

Reporting the District as a Whole

The Statement of Net Assets presents information on the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time increases or decreases in net assets help determine if the District is better or worse off as a result of the year's activities. Other non-financial factors will also likely need to be considered to assess the overall financial health of the District.

These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for regardless of when cash is received or paid.

The Statement of Activities presents information showing how the District's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The District charges assessment fees to customers for irrigation water service. These fees cover all or most of the cost of providing the related services to the District.

The District has only one fund, which accounts for the activity of the District. The fund financial statements provide detailed information about the operations of the District as a whole. The District's only fund is operated as an enterprise fund. Enterprise funds are reported using the accrual accounting method, which records revenues when they are earned and expenses when they are incurred. There are no governmental type funds operated by the District.

Government-wide Financial Analysis

The net assets of the District changed by \$22,577 from a year ago, increasing from \$996,542 to \$1,019,119. The following analysis focuses on the net assets and changes in net assets of the District's business activity.

Statement of Net Assets

	Business-type Activities	
	2005	2006
Current Assets	\$ 130,259	\$ 148,801
Capital Assets	<u>1,198,185</u>	<u>1,198,185</u>
Total Assets	<u>1,328,444</u>	<u>1,346,986</u>
Current Liabilities	19,886	15,851
Long-term Debt Outstanding	<u>312,016</u>	<u>312,016</u>
Total Liabilities	<u>331,902</u>	<u>327,867</u>
Net Assets:		
Invested in Capital Assets (Net of Related Debt)	867,661	870,318
Unrestricted	<u>128,881</u>	<u>148,801</u>
Total Net Assets	<u>\$ 996,542</u>	<u>\$ 1,019,119</u>

Net Assets of the District are \$1,019,119. *Unrestricted* net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – are \$148,801. These net assets are used to finance the continuing operations of providing our services to citizens within the District's boundaries.

Changes in Net Assets

	Business-type Activities	
	<u>2005</u>	<u>2006</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 132,451	\$ 140,951
Interest Income	3,522	5,813
Other Income	<u>26,520</u>	<u>9,350</u>
Total Revenues	<u>162,493</u>	<u>156,114</u>
 Program expenses		
Salaries and Wages	6,459	5,382
Operations and Maintenance	130,020	125,121
Utilities	<u>4,010</u>	<u>3,034</u>
Total expenses	<u>140,489</u>	<u>133,537</u>
 Change in net assets	22,004	22,577
 Net assets – beginning	<u>974,538</u>	<u>996,542</u>
Net assets – ending	<u>\$ 996,542</u>	<u>\$ 1,019,119</u>

Budgetary Highlights

The board has made no revisions to the District's budget over the course of the year.

Since the District operates as an enterprise fund, it is only required to comply with the budget on an entity wide basis. The District prepared the budget on a cash basis while the accrual basis is used in the presentation of the financial statements.

Capital Assets

The shareholders of the District own the following capital assets:

	<u>2005</u>	<u>2006</u>
Water Shares	<u>\$ 1,198,185</u>	<u>\$ 1,198,185</u>

Debt Administration

The long-term liabilities of the District are not due and payable in the current period and, therefore, are not reported in the funds. The District had the following balances of notes outstanding:

	<u>2005</u>	<u>2006</u>
Notes Payable	<u>\$ 330,524</u>	<u>\$ 312,016</u>

There was no new debt issued during 2005 or 2006.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions or need additional financial information, contact the District Office at 10260 North 6000 West, Highland, UT 84003.

BASIC FINANCIAL STATEMENTS

HIGHLAND CONSERVATION DISTRICT

STATEMENT OF NET ASSETS

DECEMBER 31, 2006

	<u>Business-type Activities</u>
ASSETS	
CURRENT ASSETS	
Cash in Checking and Interest	
Bearing Investments	\$ 141,989
Accounts Receivable	<u>6,812</u>
TOTAL CURRENT ASSETS	<u>148,801</u>
NONCURRENT ASSETS	
Capital Assets	
Non Depreciable	<u>1,198,185</u>
TOTAL NONCURRENT ASSETS	<u>1,198,185</u>
TOTAL ASSETS	<u>1,346,986</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	<u>15,851</u>
TOTAL CURRENT LIABILITIES	<u>15,851</u>
NONCURRENT LIABILITIES	
Due Within One Year	18,508
Due in more than One Year	<u>293,508</u>
TOTAL NONCURRENT LIABILITIES	<u>312,016</u>
TOTAL LIABILITIES	<u>327,867</u>
NET ASSETS	
Investment in Capital, Net of Related Debt	870,318
Unrestricted	<u>148,801</u>
TOTAL NET ASSETS	<u>\$ 1,019,119</u>

See the accompanying notes to the financial statements and accountant's report

HIGHLAND CONSERVATION DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2006

		Program Revenues		Net (Expense)
				Revenue and
				Changes in
				Net Assets
		Operating	Capital	
		Charges for	Grants and	Grants and
		Services	Contributions	Contributions
	Expenses			Business-type
				Activities
FUNCTIONS/PROGRAMS				
Business-type Activities				
Conservation District	\$ 133,537	\$ 140,951	\$ -	\$ 9,350
				\$ 16,764
Total Governmental Activities	\$ 133,537	\$ 140,951	\$ -	\$ 9,350
				16,764
		General Revenues		
		Unrestricted Investment Earnings		5,813
		Total General Revenues		5,813
		Change in Net Assets		22,577
		Net Assets - Beginning		996,542
		Net Assets - Ending		\$ 1,019,119

See the accompanying notes to the financial statements and accountant's report

HIGHLAND CONSERVATION DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Business-type Activities</u>
<u>OPERATING REVENUES</u>	
Water Assessments	<u>\$ 140,951</u>
 TOTAL OPERATING REVENUES	 <u>140,951</u>
<u>OPERATING EXPENSES</u>	
Salaries, Wages and Benefits	5,382
Operation and Maintenance	125,121
Administration	<u>3,034</u>
 TOTAL OPERATING EXPENSES	 <u>133,537</u>
 OPERATING INCOME	 <u>7,414</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>	
Interest Income	<u>5,813</u>
 TOTAL NON-OPERATING REVENUES (EXPENSES)	 <u>5,813</u>
 INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	 13,227
Capital Contributions	<u>9,350</u>
 CHANGE IN NET ASSETS	 22,577
 TOTAL NET ASSETS AT BEGINNING OF YEAR	 <u>996,542</u>
 TOTAL NET ASSETS AT END OF YEAR	 <u>\$ 1,019,119</u>

See the accompanying notes to the financial statements and accountant's report

HIGHLAND CONSERVATION DISTRICT

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Business-type Activities</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Receipts from Customers	\$ 157,796
Payments to Suppliers	(112,481)
Payments to Employees	<u>(6,459)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>38,856</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Contribution towards Debt Payment	9,350
Debt Payments	<u>(18,508)</u>
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(9,158)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Interest Income	<u>5,813</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>5,813</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	35,511
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>106,478</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 141,989</u>

See the accompanying notes to the financial statements and accountant's report

HIGHLAND CONSERVATION DISTRICT

STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Business-type Activities</u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Operating Income (Loss)	\$ 7,414
Changes in Assets and Liabilities	
Accounts Receivable	16,213
Interest Receivable	632
Prepaid Expenses	124
Accounts Payable	15,550
Accrued Payroll	(1,000)
Payroll Liabilities	<u>(77)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 38,856</u>

See the accompanying notes to the financial statements and accountant's report

HIGHLAND CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Highland Conservation District (District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant of the District's accounting policies.

Reporting Entity

The Highland Conservation District was created to purchase acre fee (shares) of irrigation water for the purpose of providing irrigation water to the District's water shareholders. The water is attached to the land and serves various areas within Highland and Lehi. The District has the power of taxation to provide sufficient funds for water acquisition, however, the District's board has deemed that a water assessment fee is a better method of generating funds for acquisition of certain water rights.

The accounting policies of Highland Conservation District conform to generally accepted accounting principles in the United States of America, as applicable to governmental units.

Government-wide Financial Statements

The government-wide financial statements (statement of net assets and statement of activities) report information on all of the non-fiduciary activities of the District. Business-type activities are supported by charges for services and contributions.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include 1) charges to customers who directly benefit from goods or services provided by a given function or activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Interest and other items not properly included among program revenues are reported as general revenues.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Financial resources used to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the District are reported as a reduction of the related liability, rather than as an expenditure in the government-wide financial statements.

NOTE 1 - (CONTINUED)

Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

Assets, Liabilities and Fund Equity

A. Cash and cash equivalents

Cash includes cash on hand, demand deposits with banks and other financial institutions, and deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts. The District's investment policy allows for the investment of funds in time certificates of deposit with federally insured depositories and other investments allowed by the State of Utah's Money Management Act. Investments are reported at fair value.

Cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Investments with maturities of three months or less, when purchased, meet this definition.

B. Capital assets

The District's shareholders own 5,010 shares of Provo River Water Users Association stock. The shares are carried at historical cost.

C. Net assets

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Budgetary procedures for the District have been established by Utah State Statute in the Fiscal Procedures Act for Utah Counties, (the Act). The Act requires counties and special districts formed by counties to adopt annual budgets. The basis of accounting applied to each fund budget is the same basis as the related fund's financial statements. In accordance with State law, all appropriations lapse at the end of the budget year, accordingly, no encumbrances are recorded. At its option the District may permit its expenditure accounts to remain open for a period of 30 days after the close of its fiscal year for the payment of approved invoices for goods received or services rendered prior to the close of the fiscal year.

Under Utah State law, the District's budget establishes maximum legal authorization for expenditures during the fiscal year. Expenditures are not to exceed the budgeted amounts, including revisions, except as allowed by the code for certain events. A public hearing must be held to increase the total appropriations.

NOTE 3 - CASH AND INVESTMENTS

The District maintains a deposit and investment pool. Cash includes amounts in demand deposits as well as time deposits. Investments are stated at cost or amortized cost, which approximates fair value. Deposits are not collateralized nor are they required to be by State statute.

Deposits and investments for District governments are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7) (The Act) and by rules of the Utah Money Management Council (the Council). Following are discussions of the District's exposure to various risks related to its cash management activities.

Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be recovered. The District's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the District to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of December 31, 2006, none of the District's bank balances of \$39,955 were uninsured and uncollateralized.

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The District's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating organizations as defined in the Act.

NOTE 3 - (CONTINUED)

The District is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subjected to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

The following are the District's investments at December 31, 2006:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund (PTIF)	\$ <u>102,089</u>	\$ <u>102,089</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by investment mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less. Maturities of the District's investments are noted above.

The deposits and investments described above are included on the statement of net assets as per the following reconciliation:

Deposits	\$ 39,900
Investments	<u>102,089</u>
Total	\$ <u>141,989</u>
Cash and Cash Equivalents	\$ <u>141,989</u>

NOTE 4 - CAPITAL ASSETS

The District's shareholders own 5,010 shares of Provo River Water Users Association stock. These shares are not being depreciated. The shares are carried at historical cost.

NOTE 5 - LONG-TERM DEBT

On November 27, 1953, the District purchased 5,010 shares of Provo River Water Users Association Stock for \$1,198,185. This stock was purchased with an interest-free note payable for the same amount.

Subsequent to the initial development, the project was expanded. The Central Utah Water Conservancy District was included and a power plant was constructed. As a result, a portion of Central Utah Water Conservancy District's annual contributions and power plant revenues are allocated to help make the District's annual payment of \$18,508. The amount contributed by Central Utah Water Conservancy District during 2006 was \$9,350 with the remaining balance of \$9,158 being paid by the District.

The following is a summary of changes in long-term debt of the District for the year ended December 31, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Note Payable	\$ 330,524	\$ -	\$ 18,508	\$ 312,016	\$ 18,508

Principal requirements to retire the District's long-term obligations are as follows:

	<u>Principal</u>
2007	\$ 18,508
2008	18,508
2009	18,508
2010	18,508
2011	18,508
2012-2016	92,540
2017-2021	<u>126,936</u>
Total Outstanding	312,016
Less Current Portion	<u>(18,508)</u>
Long-Term Portion	<u>\$ 293,508</u>

NOTE 6 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the District to purchase commercial insurance for these risks or maintain risk at the District level. Various policies are purchased through an insurance agency to cover liability, theft, damages, and other losses. A minimal deductible applies to these policies which the District pays in the event of any loss. The District also has purchased a workers' compensation policy. Insurance settlements have not exceeded insurance coverage during the last three years.